

Message Text

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ACTION AF-10

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E.O. 11652: N/A
TAGS: BENC, ENRG, NI
SUBJECT: MAJOR PROJECT FOLLOWUP: LNG

REF: (A) LAGOS 2755, (B) LAGOS 0296

1. MANAGING DIRECTOR OF PENCOL, FMG CONSULTANT ON PIPELINE PROJECT, TOLD PETROLOFF RECENTLY THAT HE DOES NOT BELIEVE IMEG, FMG DESIGN CONSULTANT FOR GAS GATHERING, WILL BE AWARDED PROJECT MANAGER OR OPERATING CONTRACTS ON GAS GATHERING GRID WHICH WILL FEED LNG PLANTS.

2. THIS CONTRARY TO OPINIONS PREVIOUSLY EXPRESSED BY CHAIRMAN OF IMEG. HOWEVER, AS ATTESTED BY PENCOL CONTRACTS FOR PIPELINES PENCOL IS NOW SOLIDLY ESTABLISHED WITH NIGERIAN NATIONAL PETROLEUM CORPORATION (NNPC, FORMERLY MINISTRY MINES AND POWER) AND IN GOOD POSITION UNDERSTAND AND BE SENSITIVE TO THINKING NNPC OFFICIALS. PENCOL'S PROJECT MANAGER FOR NIGERIAN PIPELINE PROJECTS WAS FORMERLY IMEG UGF DIRECTOR. PENCOL THINKS THAT IMEG NOT A BAD ORGANIZATION, BUT NOT OF SUFFICIENT STATURE TO TAKE ON GAS GATHERING JOB ALONE AND STILL INSPIRE NECESSARY CONFIDENCE IN FOREIGN PARTNERS IN LNG PLANTS OR LNG CUSTOMERS AND BANKERS.

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3. PENCOL MANAGER SAID HE PERSONALLY FEELS EITHER BECHTEL OR FLUOR WOULD BE THE KIND OF FIRM NNPC SHOULD HIRE AS PROJECT MANAGER FOR GAS GATHERING GRID, AND WILL GO RECOMMEND IF NNPC ASKS HIS OPINION. PENCOL MANAGER ALSO SAID HE FEELS NNPC NEEDS TOP RATE FIRM WITH PROVEN TRACK RECORD IN OPERATING GAS UTILITIES TO BE ITS OPERATING PARTNER IN GAS GATHERING GRID. HE AGREED THAT COMPANY LIKE TENNECO, WHICH HAS INTEREST BOTH IN

LNG SHIPBUILDING AND IN BUYING LNG, WOULD BE GOOD CHOICE.

4. PETROLOFF STEERING BECHTEL AND OTHERS INTERESTED IN LNG TOWARD PENCOL AS POTENTIALLY USEFUL JOINT-VENTURE PARTNER FOR GAS GATHERING GRID. PENCOL ADMITTEDLY A BRITISH FIRM. HOWEVER, THERE NO QUESTION PENCOL IS ENTRENCHED IN PIPELINE BUSINESS IN NIGERIA. FIRM WAS DESIGN CONSULTANT FOR PIPELINES, THEN AWARDED OVERALL PROJECT AMANAGEMENT CONTRACT PLUS SUPERVISION CONTRACT ON SECTION OF PIPELINE BEING CONSTRUCTED BY WILLIAMS. FMG HAS PROCLIVITY FOR STICKING WITH FIRMS IT KNOWS. THUS, U. S. FIRM WORKING HAND-IN-HAND WITH PENCOL MIGHT STAND BEST CHANCE WINNING PROJECT MANAGEMENT AND/OR OPERATING CONTRACT ON GAS GATHERING PIPELINE GRID SYSTEM. PENCOL BY SELF-ADMISSION FAR TO SMALL TACKLE JOB ALONE, BUT GIVEN ITS EXISTING BASE AND EXPERIENCE HERE COULD BE HELPFUL PARTNER.

5. ON OTHER FRONT, BANKERS TRUST REPS INFORMED PETROLOFF THEY DISCUSSING FINANCING LNG PROJECT WITH EXIMBANK AND SHELL INTERNATIONAL IN THE HAGUE. ALLOWING FOR ALL CONTINGENCIES, BT FIGURES MAXIMUM COST OF ONE LNG PLANT, PLUS TANKERS AND GAS GATHERING LINES, TO BE ON ORDER DOLLARS 4 BILLION. LIQUEFACTION PLANT ITSELF ESTIMATED COST DOLLARS 1.2 BILLION, SEVENTY PERCENT OF WHICH IS DEBT. BT FIGURES COMMERCIAL BANKS WILL FINANCE PERHAPS DOLLARS 200 TO 400 MILLION, WITH EXIMBANK FINANCING BALANCE OF DEBT.

6. RE PROGRESS OF LNG PLANTS, MANAGING DIRECTOR SHELL-BP ERNST HOTZ TOLD PETROLOFF AT DINNER GIVEN BY AMBASSADOR IN HONOR UNDERSECRETARY OF STATE COOPER THAT SOME OFFICIALS IN LIMITED OFFICIAL USE

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FMG APPARENTLY HAVE BEGUN TO QUESTION WHETHER NIGERIA COULD REALIZE SAVING OF COUPLE HUNDRED MILLION DOLLARS ON INFRASTRUCTURE BY COMBINING TWO PROPOSED LNG PLANTS INTO ONE. HOTZ SAID SHELL AND BP OPPOSED TO THIS AS IT WOULD INVOLVE COMPLICATIONS AND MUCH DELAY. HOWEVER, BARRING THIS POSSIBLE OBSTACLE, HOTZ SAID SHELL-BP LNG PROJECT PROGRESSING ON SCHEDULE. HE CONFIDENT THAT FISCAL TERMS WILL BE WORKED OUT SO THAT PRICE OF GAS PAID AT WELLHEAD HIGH ENOUGH TO ENCOURAGE INVESTMENT IN GAS PRODUCTION, BUT TAXES NOT SO HIGH THAT RESULTING LNG UNCOMPETITIVE. HOTZ TOLD OFFICIAL OF CENTRAL PLANNING OFFICE IN MINISTRY ECONOMIC DEVELOPMENT THAT REALISTIC TARGET AS THINGS NOW STAND IS FOR CONSTRUCTION TO BEGIN LATE 1979 AND PLANT TO BE COMPLETED BY END 1982.

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